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Federal Focus

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Asset assessment
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President Bush's fiscal 2004 budget has put all federal agencies on notice that the administration will place increased attention on the management of billions of dollars worth of property, inventories and loans. Hidden deep within the budget, in a chapter on "Governing for Accountability," the administration stated it will "demand that assets be justified and accounted for and that plans be made for purchases, management, maintenance and operation."

This means that agencies will need to have effective inventory systems, with accurate information on the location, size and other characteristics of their property, and an ability to determine the extent to which that property is underused or unused. Agencies will also need to meet the Office of Management and Budget's capital budgeting requirements when making major purchases to ensure they consider life-cycle costs and analyze the risks inherent in capital acquisitions. This is good news. If the government learns to better manage its tangible and intangible assets, it will save money and free federal workers to tend to more immediate priorities.

OMB Director Mitch Daniels has said that the federal government "is sitting on an incredible array of unutilized and underutilized assets." According to its own financial statements, the government has $307 billion in property, plant and equipment; $209 billion in loans receivable; and $184 billion in inventories and related property. The time and resources invested in servicing and managing those loans receivable could be put to better use if some of the loans were sold or if management of the remainder were outsourced.

For example, OMB has estimated that the government could realize as much as $1 billion in administrative savings each year if it sold its entire direct loan and defaulted guaranteed loan portfolios. These savings could then be applied to more pressing national needs, such as homeland security, education or health care.

The same goes for the time and resources demanded by the management of excess federal real property. With few exceptions, agencies have no incentive to identify their unneeded property or dispose of it, since the proceeds of sales are deposited as miscellaneous receipts in the

Treasury. Nor do agencies have tools to deal with underused and obsolete property. The 1949 Federal Property and Administrative Services provides no authority for agencies to lease out unused space or land or to sell or exchange obsolete facilities for more suitable ones.

The federal government's asset management practices are particularly weak. The General Accounting Office reports longstanding problems in the federal real property area, including excess and underutilized property, deteriorating facilities, unreliable real property data and costly space. According to GAO, these problems "have multibillion-dollar cost implications and can seriously jeopardize the ability of federal agencies to accomplish their missions."

One particular problem area is investments in real estate. At the moment, budget scorekeeping rules encourage costly leases instead of purchases that would save money over time. Revisions here could result in additional assets under government ownership, but lower costs in the long run. A prime example is the Patent and Trademark Office's recent search for new offices in Northern Virginia. Signing a lease for new space was estimated to cost $48 million more than constructing a building, and $38 million more than a lease-purchase arrangement. Likewise with a new headquarters for the Transportation Department. The General Services Administration's 1999 prospectus showed the cost of construction would be $190 million less than an operating lease.
On the other side of the ledger, agencies need to get rid of excess assets. With four rounds of base realignment and closures, the Defense Department has reduced its real property holdings by 21 percent since the Cold War. Yet Defense still estimates it is spending $3 billion to $4 billion each year maintaining facilities that are not needed.

In July 1999, GAO reported that vacant space at the Veterans Affairs Department was costing as much as $35 million to maintain each year. In October 2002, VA initiated a new planning process called CARES—Capital Asset Realignment for Enhanced Services. Through CARES, VA has launched a new planning process aimed in part at identifying which of the 164 medical centers the VA operates are unneeded and calculating how the savings from selling those assets could contribute to providing medical care to veterans over the next 20 years.

The administration's fiscal 2004 budget recognizes these challenges. Because of the budget's new attention to asset management, now is the time to begin using both the lessons learned and the leading practices of organizations in the public and private sectors that have attempted to reform their asset management practices. Solutions should not only correct the longstanding problems, but also be responsive to agencies' changing missions and security concerns, as well as the technological needs of the 21st century.

The government can learn from other sectors of the economy about the reform of asset management. As a first step, agencies should develop an overall “asset management framework,” as private sector organizations do, to help them align high-performing assets that are critical to their missions. Second, as with initiatives under the President’s Management Agenda, agencies should develop “standards for success” in asset management, based on those developed by leading organizations in both the public and private sectors. Finally, over time, agencies should develop comprehensive programs to address the full range of asset types, including loans, facilities, real property, equipment, information technology and fleets. Steps such as these will help redirect resources to areas where they can do more good for the American people.